

## National Economy

While some economists and government officials have been predicting that the U.S. economy would slow down in the second half of 1996, signs of expansion in the nation's economy continue to appear. Economic indicators released recently by both the U.S. government and private research groups provide persuasive evidence that the national economy will continue to expand in the near future; at present there are virtually no signs of any moderation or weakness. In fact, U.S. economic activity is so robust that the financial markets are concerned that the Federal Reserve will be forced to tighten credit if signs of deceleration in the economy do not appear soon. The mitigating factor is that inflation remains subdued, as discussed below.

Among the economic indicators that point to continuing strength in the U.S. economy, the July **index of leading economic indicators** showed a moderate 0.2% rise after a 0.5% jump in June. The index, now prepared by the Conference Board (a private research group based in New York), which is designed to forecast the direction of the national economy six to nine months in advance, has not posted a monthly decline since January. Separately, the **consumer confidence index**, also published by the Conference Board, unexpectedly strengthened in August, rising 2.4 points to 109.4, its highest level in more than six years.

Other positive developments include a drop in the U.S. **unemployment rate** (seasonally-adjusted) from 5.4% in July to 5.1% in August, its lowest level in almost seven years. At the same time, payrolls grew by a strong 250,000 jobs in August following an upward-revised 228,000 employment increase in July. **Industrial production** surged 0.5% in August and was 3.4 percent higher than a year earlier, while the nation's factories and plants operated at 83.5 percent of full capacity, up from 83.3% in July.

Finally, the best economic news has been on the inflation front. Despite strong economic growth and an extended period of low and declining unemployment, general price pressure remains low at both the consumer and wholesale level. The **Consumer Price Index (CPI)** released recently by the Labor Department rose a scant 0.1% in August, making the rise in the general price level only 2.9% over the past 12 months. Similarly, the Labor Department reported that inflation at the wholesale level, as measured by the **Producer Price Index (PPI)** for finished goods, rose exactly 3.0% between August 1995 and August 1996.

## The Region: Employment and Economic Trends

**Total wage and salary employment** in the SCAG region's six counties combined in July was 6,134,400, up 142,300 jobs, or 2.4 percent, from year-earlier (Figures 1 and 2, Tables 1 and 3). As of July 1996, the SCAG region as a whole had recouped nearly 60 percent of total jobs lost during the recession. Lest we be too quick to celebrate, however, we should note that the entire State (i.e., including Southern California) has now recovered more than 120 percent of the jobs lost during the 1990-93 recession. Currently, the region's total wage and salary employment is still about 223,000 jobs lower than the pre-recession high recorded in the second quarter of 1990. We estimate that the region's employment level will not reach its pre-recession high of 6.35 million jobs until the end of 1997, assuming that current U.S. and regional economic conditions continue into next year.

Among industrial sectors which showed positive year-over-year employment growth, job gains in *durable goods manufacturing* are the most significant. As in the case with employment in the manufacturing sector as a whole, durable goods manufacturing has now registered modest job growth for the second month in a row. These developments support our comment in the July issue of *SCAG Employment Trends Monthly* that "... employment losses [in manufacturing] may be bottoming out, and the overall manufacturing job market has stabilized." Regionwide, only a handful of sectors are still posting year-over-year employment declines: *transportation equipment* (down 2,000 jobs, or 1.8%), *instruments and related products* (-1,000 jobs, or -1.2%), *paper, printing and publishing* (-2,400 jobs, or -2.5%), *finance, insurance, and real estate (F.I.R.E.,* -500 jobs, or -0.1%), and the *federal government* (-2,000 jobs, or -1.4%).

The region's **weighted average unemployment rate** (Figure 3 and Table 4) climbed to 8.2 percent in July from 7.5 percent in June, but remained below its year-ago level of 8.4 percent. The July (monthly) jump in unemployment rates was across the board: jobless rates for every county in the SCAG region were higher than in June. However, an increase in unemployment rates at this time of year is typical, as schools close and "seasonally unemployed" staff show up in the unemployment calculation. Both the California and U.S. jobless rates (seasonally unadjusted) also moved up between June and July—from 7.3% to 7.6% for California, and from 5.5% to 5.6% for the U.S. Both rates were also below their year-ago levels.